

NEWS RELEASE

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Media Contacts:

The Point Group

Scott Tims (stims@thepointgroup.com)

214-378-7970 x 278 (mobile 214-957-6785)

Regina Haas (rhaas@thepointgroup.com)

214.378.7970 x 254 (mobile 214.725.8090)

HRO buyers focused on value creation and technology rather than cost savings, says Everest Research Institute survey analysis *Price improvements likely with HRO contract renewals as buyers accept standardized solutions*

DALLAS, June 26, 2007 — To gain value creation and access to technology, a growing majority of Human Resources Outsourcing (HRO) buyers are willing to forego cost savings and sign outsourcing deals that favor the 'transfer-transform model' in which a company's processes and technologies are provided by the supplier, according to a new study from the Everest Research Institute.

The HRO buyer survey and analysis, *Human Resources Outsourcing Market Update: HRO Benchmarks*, also noted transactions since 2004 have rapidly shifted from highly customized solution contracts to more configured or "off the shelf" solutions to leverage suppliers' economies of scale. Thus, buyers with contracts coming up for renewal in the next few years can expect to receive price improvements over their original contracts.

"Five years ago, HRO buyers were focused on cost savings, but today we're seeing a different kind of buyer that is willing to accept less than 10 percent or even zero cost savings because they want access to the best technologies and other value creation functions," said Monica Barron, Vice President, Everest Research Institute. "Companies are straying further away from the 'lift-shift' outsourcing model characterized by the supplier taking over the buyer's existing staff, processes, and technologies that are used as the platform for providing outsourcing services. Instead, buyers want to take advantage of supplier-provided processes and technologies that are already in place and ready to be implemented. As such, buyers are more frequently accepting multi-client solutions that offer more competitive pricing options."

According to the study, suppliers are creating and offering value-based solutions, such as talent management, that can help companies create and deliver strategic initiatives but will need to improve overall delivery quality, and develop and implement standardized metrics, to truly satisfy buyers.

"Suppliers must focus their efforts on developing people and process capabilities and offer competitive pricing with innovative solutions and up-to-date technologies," said Rajesh Ranjan, an Everest Research Institute Senior Research Analyst and co-author of the report. "Furthermore, suppliers must also collaborate with buyers to develop more standardized and measurable service metrics to counter our survey finding that almost a third of buyers report a decline in quality. We believe the suppliers' efforts to improve quality, the continued transition of buyers adopting the transfer-transform model, and the continued maturity of HRO processes and delivery models will improve quality-related issues."

Other study findings include:

- **Process Scope:** The majority of buyers (54 percent) have outsourced 10-12 HR processes out of a maximum of 12 processes.
- **Process maturity:** Transaction-intensive and support HR processes are outsourced more frequently than judgment-intensive processes. Emerging maturity in areas of compensation, recruiting, training and global mobility are gaining traction to join mature processes such as payroll, benefits, employee data management, HRIT and contact center.
- **Technology:** Half of the transactions employed a hybrid technology model (a mix of ERP, proprietary and best-of-breed applications.) Almost all of the transactions surveyed had HR technology in scope, with 61 percent reporting a significant change to HR technology post-outsourcing.
- **Targeted cost reductions:** All buyers surveyed achieved their targeted cost reductions with average staff reductions of 54 percent.
- **Offshoring:** Nearly half of the transactions had no offshore component; 44 percent of transactions had 1-5 processes with offshore components, led by HRIT, employee data management and training.
- **Pricing:** Fixed price modeling was used most often, and price points have declined significantly since 2004.

The study also includes a deep-dive analysis of HR training that includes these findings:

- 22 percent of buyers did not outsource training; 45 percent outsourced 1-5 training processes with 22 percent utilizing an offshore delivery model
- 86 percent of transactions utilized best-of-breed training applications
- Inclusion of judgment-intensive training sub-processes has significantly increased in recent years
- FTE reductions averaged 61 percent, most of which were administrative support positions

For additional information and an extract of the HRO Market Update/Benchmarks study, please visit www.outsourcing-center.com. You may also call 214-451-3110 to schedule a personal briefing appointment.

About Everest Research Institute

Everest Research Institute (www.everestresearchinstitute.com) serves as a central source of independent and objective strategic intelligence, analysis, and actionable insight for leading corporations, service providers, and investors in the global outsourcing and offshoring marketplace. The Institute addresses both business process and information technology sourcing topics, providing the global outsourcing and offshoring community with information that empowers highly productive, sustainable sourcing strategies and relationships. The Institute's distinguished Board of Advisors, senior executives and thought leaders oversee the Institute's research agenda to ensure that it fully supports the business needs of corporations, service providers and investors.

Everest Research Institute members receive access to unparalleled analytical and advisory services, including access to Everest analysts, in-depth reports on major outsourcing and offshoring topics, white papers on market-shaping events, and webinars designed to provide insight and information about important market trends. The Institute's wealth of knowledge and experience provides members with unique perspectives into today's marketplace and the competitive edge required to take advantage of emerging opportunities.

Everest Research Institute is the research arm of the Everest Group (www.everestgrp.com), a global consulting firm that assists corporations in developing and implementing leading-edge sourcing strategies. Since 1991, Everest Group has served as the trusted business advisor for hundreds of IT and business process outsourcing transactions worldwide.

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